

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2012

Santa Barbara Community College District
Financial Statements
June 30, 2012

Table of Contents

	Page
<i>Financial Section</i>	
<i>Business-Type Activities</i>	
Independent Auditors' Report on Financial Statements	5-6
Management's Discussion and Analysis	7-13
Statement of Net Assets	14-15
Statement of Revenues, Expenses and Changes in Net Assets	16-17
Statement of Cash Flows	18-19
Notes to Financial Statements	20-35
Schedule of Funding Progress for OPEB Obligation	36
<i>Supplementary Information</i>	
Independent Auditors' Report on Supplementary Information	38-39
Organization	40
Schedule of Expenditures of Federal Awards	41-42
Schedule of State Financial Awards	43-44
Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance	45
Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records	46

Santa Barbara Community College District

Table of Contents

June 30, 2012

Page 2

	Page
Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets	47-48
Reconciliation of ECS 84362 (50 Percent Law) Calculation	49-50
Note to Supplementary Information	51
<i>Other Independent Auditors' Reports</i>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	55-56
Independent Auditors' Report on State Compliance Requirements	57-60
<i>Findings and Recommendations</i>	
Schedule of Audit Findings and Questioned Costs	62-68
Schedule of Status of Prior Year Audit Findings	69

Financial Section



Independent Auditors' Report on Financial Statements

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

We have audited the accompanying financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the fiscal year ended June 30, 2012, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The discretely presented component unit financial statements of the Foundation for Santa Barbara City College as of and for the fiscal year ended June 30, 2012, were audited by other auditors whose report dated October 12, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees

Santa Barbara Community College District

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 7 through 14 and the Schedule of Funding Progress for OPEB Obligation on page 37 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Glenn Burdette Attest Corporation
San Luis Obispo, California

November 9, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Santa Barbara Community College District’s (“District”) Financial Report presents a narrative overview and analysis of the District’s financial activities for the fiscal year that ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

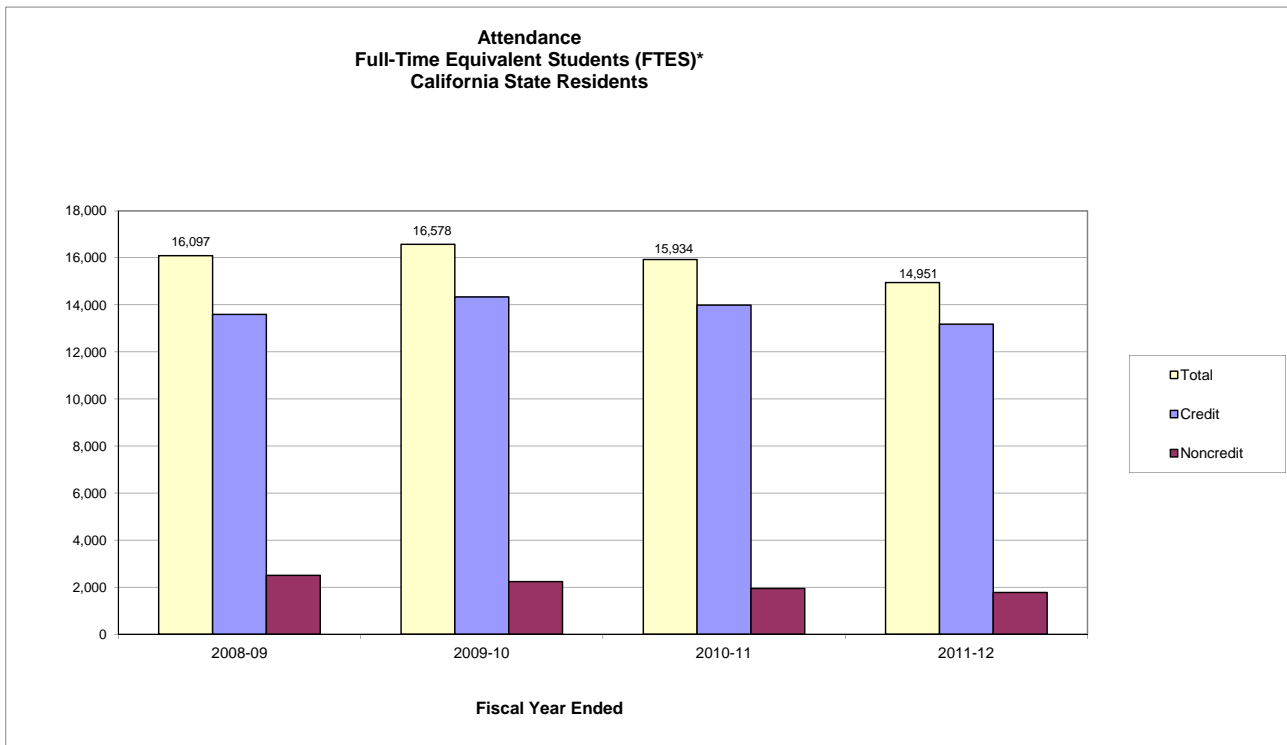
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

This Annual Report consists of four components: (1) Management’s Discussion and Analysis, (2) Basic Financial Statements, (3) Notes to the Basic Financial Statements, and (4) Supplementary Information, which among other things includes federal and state compliance items.

The Annual Report also includes the discretely presented financial statements of the Foundation for SBCC which is considered a component unit of the District according to government accounting standards. Full information about the Foundation for SBCC can be found in the audited financial statements available from the Foundation’s office at 721 Cliff Drive, Santa Barbara, CA 93109.

Financial Highlights

- The District’s primary funding source is apportionment received from the State of California. The main basis of this apportionment is student attendance as measured by Full-Time Equivalent Students (“FTES”). During the 2011-12 fiscal year, FTES was 14,951, a decrease of (983) FTES or (6.2%) from the prior year.



* Full-time equivalent students are based on the District’s annual attendance report, Form CCFS-320 filed with the State Chancellor’s Office.

The State of California instituted a 7% reduction in the funded FTES workload measures due to lack of sufficient state revenue. The District's funded FTES was reduced by 1,200 to 14,524 at the second principal apportionment reported in June 2012. With actual FTES at 14,951, the District had unfunded FTES of 427 or 2.9%.

Enrollment of nonresident student at 2,219 FTES was 25 FTES or 1.1% more than the prior year.

Statement of Net Assets

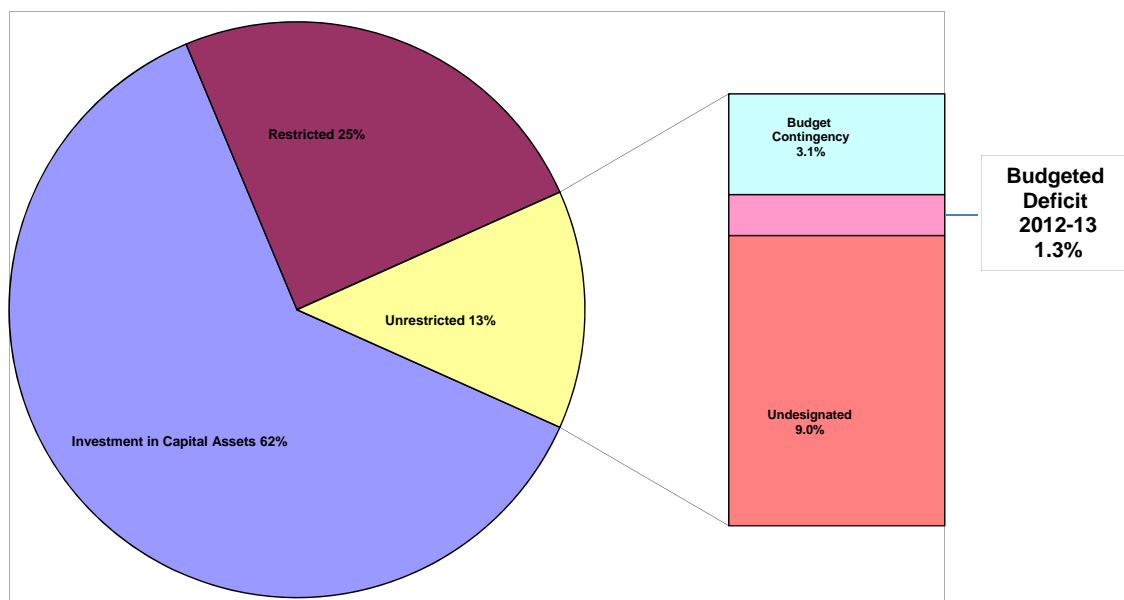
The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

As of June 30, 2011 and 2012

	(in thousands)		
Assets	2011	2012	Change
Current assets			
Cash and cash equivalents	\$ 66,392	\$ 61,668	-7%
Receivables	17,075	20,642	21%
Inventory and other assets	1,329	1,396	5%
Total current assets	84,796	83,706	-1%
Noncurrent assets			
Capital assets, net	113,441	120,466	6%
Total Assets	\$ 198,237	\$ 204,172	3%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 7,232	\$ 7,624	5%
Deferred revenue	8,295	10,016	21%
Interest payable	970	968	0%
Bond payable, current portion	100	180	80%
Loan payable, current portion	116	121	0%
Amounts held for others	46	53	15%
Total current liabilities	16,759	18,962	13%
Noncurrent liabilities			
Compensated absences-noncurrent portion	1,751	1,689	-4%
Bond payable-noncurrent portion	44,805	44,625	0%
Net OPEB obligation	958	1,332	39%
Loan payable	1,818	1,696	-7%
Bond premium	553	529	-4%
Total Liabilities	66,644	68,833	3%
Net Assets			
Invested in capital assets, net of related debt	87,862	83,936	-4%
Restricted	27,023	33,296	23%
Unrestricted	16,708	18,107	8%
Total Net Assets	131,593	135,339	3%

- Cash and cash equivalents at June 30, 2012 consist of cash in the Santa Barbara County Treasury, \$55.4 million, and cash in banks, \$6.3 million. Of the \$55.4 million in the County Treasury, \$14.5 million was related to Measure V bond activity.
- Receivables consist mainly of receivables for state general apportionment, state and federal grants, and student enrollment fees which the district has earned but not yet received as of the fiscal year end. At June 30, 2012, the District was waiting to collect, \$14.3 million in state apportionment funds, \$3.0 million in state restricted funds, \$1.8 million in student fees, \$0.7million in restricted federal funds and \$0.8 million in local funds.
- Capital assets, net of depreciation, are the net historical values of land, buildings, construction in progress and equipment less accumulated depreciation. The District added net capital assets of \$11.2 million related to renovation of buildings, construction in progress and purchase of equipment. Depreciation expense of \$4.0 million was recognized during 2011-12. Additional detail about capital assets can be found in the notes to the financial statements.
- Accounts payable and accrued expenses consist of payables to vendors \$5.5 million, compensated absences and accrued payroll \$2.1 million.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when related costs are incurred.
- Non-current liabilities consist of the portion of compensated absences and teacher load units \$1.7 million that will be paid by the District in one year or later. In June 2008, the voters of the Santa Barbara Community College District approved bonds of \$77 million of which \$47 million has been issued. The total outstanding balance of the bond at June 30, 2012 was \$44.9 million with \$0.2 million due within one year and \$44.6 million due in greater than one year. The District borrowed \$1.95 million from the California Energy Resources Conservation and Development Commission for the construction of a photovoltaic energy system. The unpaid balance of the loan at June 30, 2012 was 1.7 million. The District provides post-employment health care benefits to early retirees. The actuarially determined liability for Other Postemployment Benefits (OPEB) is \$1.3 million. The District's policy is to pay healthcare premiums for retirees as they fall due.

**Net Assets
June 30, 2012**



The net assets are divided into three major categories. The first category, invested in capital assets, net of related debt of \$83.9 million, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets. These restricted net assets of \$33.3 million are available for expenditure by the District, but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets composed of \$18.1 million held by the District. The unrestricted net assets of the District are available for any lawful purpose of the District.

Within the District's unrestricted net assets category, certain amounts are designated for specific purposes. In accordance with the District's principles of budget development, a contingency of \$4.2 million or 23% of unrestricted net assets is designated as a budget contingency. This budget contingency is based on 5% of budgeted unrestricted general fund expenditures. For the 2012-13 fiscal year, the Board of Trustees have approved a deficit budget utilizing \$1.7 million or 10% of unrestricted net assets to cover the amount by which budget expenditures exceed budgeted revenues. The remaining \$12.2 million of unrestricted net assets is not designated for a specific purpose.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenue and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenue in accordance with the business-type activity reporting model adopted by California community colleges.

Revenues	2011	2012	Change
Operating revenues			
Net tuition and fees	\$ 16,521	\$ 19,880	20%
Grants and contracts, noncapital	47,099	58,097	23%
Auxiliary enterprise sales and charges	9,587	9,424	-2%
Total operating revenues	73,207	87,401	19%
Total operating expenses	145,603	151,375	4%
Operating loss	(72,396)	(63,974)	-12%
Nonoperating revenues			
State apportionments, noncapital	47,987	40,100	-16%
Local property taxes, general purpose	21,617	22,141	2%
Local property taxes, special purpose	3,435	3,467	1%
State taxes and other revenues	3,233	3,228	0%
Investment income	604	399	-34%
Interest expense	(2,302)	(2,295)	0%
Other nonoperating expense	41	(16)	-139%
Total nonoperating revenues	74,615	67,024	-10%
Income before capital revenues	2,219	3,050	37%
Capital revenues			
Apportionments and property taxes, capital	1,254	696	-44%
Increase in Net Assets	3,473	3,746	8%
Net Assets-beginning of year	128,120	131,593	3%
Net Assets-end of year	\$ 131,593	\$ 135,339	3%

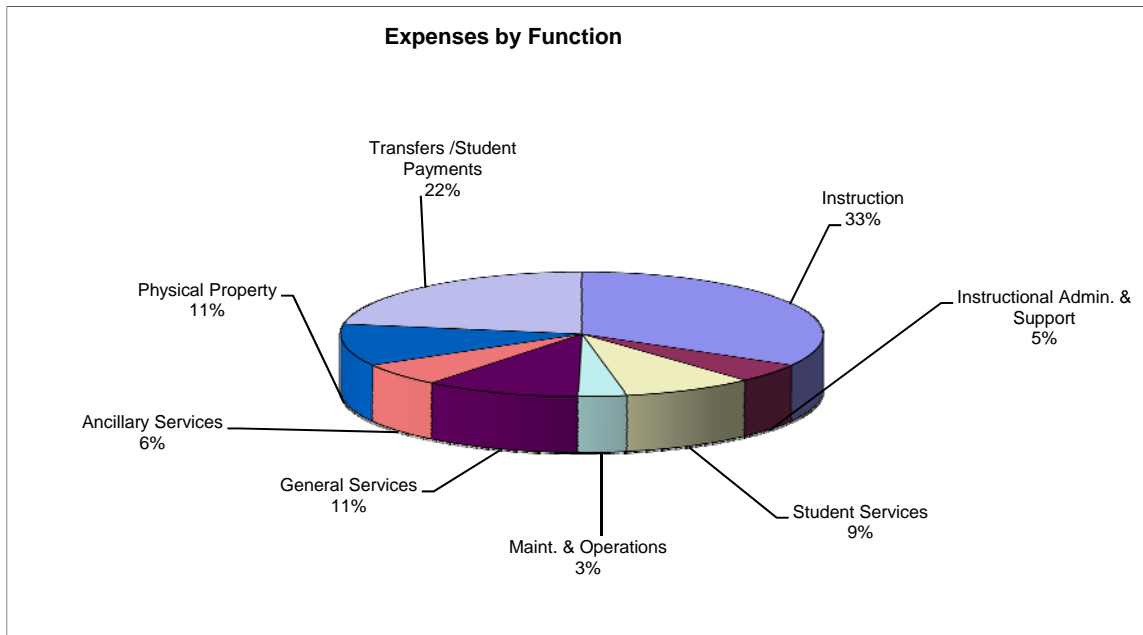
- Tuition and fees for 2011-12 are composed of enrollment fees of \$6.6 million, out-of-state and international student tuition of \$11.6 million and all other fees of \$1.6 million. Tuition and fees are stated net of Board of Governor fee waivers of \$6.3 million awarded to California resident students. Regular enrollment fees, set by the state for all community colleges, were \$36 per unit. District enrollment has declined (5.3%) from the prior year.

- Auxiliary enterprise sales and charges consist of Bookstore and Food Service sales.
- State apportionment, non-capital, is generated based on the workload measures (student attendance) reported to the State by the District. State apportionment decreased (\$7.9) million due to a 7.6% reduction in funded workload targets.
- Local property taxes increased slightly by \$524,000 or 2.0%. Local property tax revenues are received through the Auditor-Controller's office of the County of Santa Barbara. The District also received \$3.5 million in local property tax assessed for bond payments related to the bond measure approved by the voters in June 2008.
- Grants and contract revenues relate to student financial aid and specific federal and state grants received for programs serving students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs. Major increases were in state categorical programs and in a statewide financial aid media campaign program.
- State taxes and other revenue consist primarily of \$2.7 million in lottery revenue, \$0.3 million for part-time faculty compensation, and \$0.2 million for homeowners exemption tax.

Operating Expenses (by natural classification)

Expenses	(in thousands)		
	2011	2012	Change
Salaries	\$ 67,842	\$ 67,830	0%
Employee Benefits	15,988	17,210	8%
Supplies, materials, other operating expenses	56,666	60,899	7%
Utilities	1,455	1,408	-3%
Depreciation	3,652	4,028	10%
Total operating expenses	<u>\$ 145,603</u>	<u>\$ 151,375</u>	4%

- Salaries expense was on par with the expense of the prior year.
- Benefits increased by 8% due to higher health insurance benefits, unemployment insurance and workers compensation insurance.
- Supplies, materials and other operating expenses increased 4% due to greater disbursement of financial aid grants and loans and expenditures related to a State financial aid media campaign grant.
- Utilities declined by 3% compared to the prior year due to energy saving systems implemented by the District and a mild winter.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and payment during the year. This statement also assists users in assessing the District’s ability to meet its obligations as they come due and its need for external financing.

**Statement of Cash Flows
For the Year Ended June 30, 2012**

	(in thousands)
Cash provided by (used in)	
Operating activities	\$ (61,172)
Noncapital financing activities	65,476
Capital financing activities	(9,222)
Investing activities	194
Net decrease in cash	<u>(4,724)</u>
Cash, Beginning of Year	<u>66,392</u>
Cash, End of Year	<u><u>\$ 61,668</u></u>

The primary operating receipts are student tuition/fees and federal, state, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

While state apportionment and property taxes are the primary source for paying operating expenses, the business activity reporting model adopted by the California community colleges require that this source of revenue be shown as non-operating revenue as it comes from the general resources of the state and not from the primary users of the college’s programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

The revenue to support operations exceeded the operating and noncapital revenue by \$4.3 million. Capital expenditures exceed capital revenues by (\$9.2) million. Capital project expenditures included Drama/Music building remodel of \$7.6 million, Humanities building modernization and swing space of \$1.0 million, bond program administration of \$0.7 million, energy management system of \$0.6 million, and Learning Resource Center remodel of \$0.3 million.

Factors That May Affect the Future

Accreditation

- The District is accredited every six years by the Accrediting Commission of Community and Junior Colleges (“ACCJC”), a branch of the Western Association of Schools and Colleges. Being an accredited college is of critical importance. This status allows the District to provide federal financial aid to students, receive federal funding, grant degrees to students as coming from an accredited institution and articulate courses with other colleges and universities. In January 2010 the ACCJC reaffirmed the District’s accreditation status.
- On March 26, 2012, ACCJC notified the District that it has been placed on warning status as a result of a complaint filed on June 28, 2011, regarding allegations that the SBCC Board of Trustees was out of compliance with a number of accreditation standards which deal with the role and performance of the institution’s governing board in 2010-2011. The letter states that as a result of the imposition of the warning, SBCC is required to submit a special report by March 15, 2013 which demonstrates that the college has resolved the noted deficiencies, corrected any Standards violations and addressed three specific commission recommendations. This report will be followed by a visit of ACCJC representatives.
- The District has convened an Accreditation Task Force to conduct a focused self-evaluation and to prepare a special report for the ACCJC. The first draft of the report is due on December 4, 2012, with the final report mailed to ACCJC on March 10, 2013.

State Economy

- The economic position of the District is closely tied to that of the State of California. The District receives over half of its general unrestricted funding through state apportionments, local property taxes and student enrollment fees. These three sources comprise the District’s general apportionment, the main funding support for California community colleges.
- Due to the ongoing national and state recession, California continues to feel the effects of the negative economic factors. The 2012-13 enacted state budget, for the second year in a row, relies on mid-year trigger cuts to make the plan viable if revenues fail to meet estimates. The 2012-13 budget depends on voter approval of a November ballot initiative, Proposition 30, to fund essentially a stay-the-course budget for public education. On November 6, 2012, voters approved Proposition 30 thereby removing the threat of a budget cut of 7.3%.

District Budget

- Voter approval of Proposition 30 has removed the threat of a state budget midyear trigger which would have reduced state funding to the District by \$4.6 million or 7.3%. The District’s adopted budget for 2012-13 had assumed that Proposition 30 would fail and budget for state revenue was reduced accordingly. With the passage of Proposition 30, the District will be able to add back revenue to the budget and with caution and deliberation allocate funds to needs across the campus.
- When state revenue budget estimates for property tax and student enrollment fees are not achieved, the shortfall is apportioned among all community college districts as a deficit factor when state revenue is allocated. The 2011-12 deficit factor for the District was (\$1.6) million. A deficit factor of (\$1.0) million was included in the District’s 2012-13 adopted budget.
- The 2011-12 state revenue funding included a \$14.3 million inter-year deferral of revenue to 2012-13. This level of deferral plus intra-year deferrals will continue. The District has sufficient cash reserves to cover cash-flow during deferral periods without resorting to borrowing.
- The enacted 2012-13 state budget again provides no funding for COLA, or restoration of the categorical program reductions that were enacted in the 2009 Budget Act. The last time the state budget provided funding to cover COLA was 2007-08.
- Two labor bargaining units, Instructors Association and CSEA, are working with expired contracts. The Teamster contract expires December 31, 2013. There have been no negotiated wage increases since January 2008.

Santa Barbara Community College District
Statement of Net Assets
June 30, 2012

	District	Foundation for Santa Barbara City College
Assets		
Current assets:		
Cash in county treasury	\$ 55,373,261	\$
Cash on hand and in banks	6,268,893	1,398,610
Investments	25,701	2,865,345
Accounts receivable:		
Federal	701,612	
State	17,300,511	
Miscellaneous, net of allowance	2,639,000	
Prepaid expense	16,960	
Pledges receivable, current portion, net of allowance		588,892
Inventories	1,045,886	
Other assets		168,107
Bond issuance costs, net of accumulated amortization	334,123	
Total current assets	83,705,947	5,020,954
Noncurrent assets:		
Pledges receivable, net of current portion and allowance		990,586
Long-term investments		27,424,748
Assets held in FCCC-Osher		795,965
Assets held in charitable remainder trusts		6,431,405
Assets of pooled income fund		184,207
Contributions receivable from remainder trusts		3,562,164
Capital assets, net of accumulated depreciation	120,466,163	22,977
Total noncurrent assets	120,466,163	39,412,052
Total assets	204,172,110	44,433,006

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District

Statement of Net Assets

June 30, 2012

Page 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 5,517,596	\$ 538,629
Accrued wages	561,171	
Compensated absences and teacher load units	1,544,879	
Scholarships payable		438,025
Deferred revenues	10,015,593	
Interest payable, current portion	968,111	
Bond payable, current portion	180,000	
Loan payable, current portion	121,232	
Amounts held for others	53,313	
Total current liabilities	<u>18,961,895</u>	<u>976,654</u>
Noncurrent liabilities:		
Compensated absences and teacher load units, net of current portion	1,688,757	
Net OPEB obligation	1,332,333	
Loan payable, net of current portion	1,696,364	
Bond payable, net of current portion	44,625,000	
Bond premium, net of amortization	528,435	
Liability under unitrust agreements		3,729,134
Discount for future interest pooled income funds		140,231
Refundable advances-revocable split interest agreements		100,158
Total noncurrent liabilities	<u>49,870,889</u>	<u>3,969,523</u>
Total liabilities	<u>68,832,784</u>	<u>4,946,177</u>
Net Assets		
Invested in capital assets, net of related debt	83,935,998	
Temporarily restricted		10,484,893
Permanently restricted		26,584,708
Restricted for:		
Expendable:		
Scholarships and loans	231,430	
Capital projects	17,845,539	
Debt service	3,359,429	
Other special purposes	11,859,776	
Total restricted net assets	<u>33,296,174</u>	<u>-</u>
Unrestricted	<u>18,107,154</u>	<u>2,417,228</u>
Total net assets	<u>\$ 135,339,326</u>	<u>\$ 39,486,829</u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012

	District	Foundation for Santa Barbara City College
Operating revenues:		
Tuition and fees	\$ 26,152,691	\$
Less: Scholarship discount and allowances	(6,273,127)	
Net tuition and fees	19,879,564	
Grants and contracts, noncapital:		
Federal	34,468,825	
State	9,692,873	
Local	13,935,828	
Contributions and bequests		3,839,636
Interest and dividends		443,248
Gains and losses on investments		(1,871,301)
Other income		455,576
Change in value of split interest agreements		(263,824)
Auxiliary enterprise sales and charges	9,423,934	
Total operating revenues	87,401,024	2,603,335
Operating expenses:		
Salaries	67,830,298	
Employee benefits	17,209,545	
Supplies, materials, and other operating expenses and services	60,899,165	
Utilities	1,408,181	
Depreciation	4,027,628	
College programs and other designated disbursements		2,900,162
Scholarships and awards		911,123
Fundraising expense		652,095
Administrative expense	535,276	
Total operating expenses	151,374,817	4,998,656
Operating loss	(63,973,793)	(2,395,321)
Nonoperating revenues and expenses:		
State apportionments, noncapital	40,099,801	
Local property taxes	25,607,857	
State taxes and other revenues	3,228,025	
Investment income, noncapital	194,458	
Investment income, capital	205,173	
Interest expense, capital asset-related debt	(2,295,328)	
Other nonoperating revenue (expense)	(15,848)	
Total nonoperating revenues and expenses	67,024,138	
Income(loss) before other revenues and expenses	3,050,345	(2,395,321)

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012
Page 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Other revenues and expenses:		
Local revenues, capital	\$ 696,060	\$
Total other revenues and expenses	<u>696,060</u>	<u> </u>
Increase (decrease) in net assets	3,746,405	(2,395,321)
Net assets, beginning of year	<u>131,592,921</u>	<u>41,882,150</u>
Net assets, end of year	<u><u>\$ 135,339,326</u></u>	<u><u>\$ 39,486,829</u></u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2012

Cash flows from operating activities:	
Tuition and fees	\$ 21,853,601
Federal grants and contracts	35,007,396
State grants and contracts	5,308,962
Local grants and contracts	13,961,557
Payments to employees for salaries	(67,546,304)
Payment for employee benefits	(16,835,574)
Payments to suppliers/utilities	(62,345,407)
Auxiliary enterprise sales and charges	<u>9,423,934</u>
Net cash used in operating activities	<u>(61,171,835)</u>
Cash flows from noncapital financing activities:	
State apportionment	40,099,801
Local property taxes	22,140,754
State taxes and other revenues	3,228,025
Student organization agency activity	<u>7,409</u>
Net cash provided by noncapital financing activities	<u>65,475,989</u>
Cash flows from capital and related financing activities:	
Local property taxes	3,467,103
Debt interest and redemption	(2,538,341)
Interest on capital investments	205,173
Capital grants and gifts received	696,060
Purchases of capital assets	<u>(11,052,405)</u>
Net cash used in capital financing activities	<u>(9,222,410)</u>
Cash flows from investing activities:	
Investment income	<u>194,458</u>
Net cash provided by investing activity	<u>194,458</u>
Net decrease in cash	(4,723,798)
Cash - beginning of year	<u>66,391,653</u>
Cash - end of year	<u>\$ 61,667,855</u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2012
Page 2

Reconciliation of net operating loss to net cash used in operating activities:	
Operating loss	\$ (63,973,793)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	4,027,628
Changes in operating assets and liabilities:	
Accounts receivable, net	(3,566,047)
Prepaid expense	3,073
Inventories	(87,126)
Accounts payable	45,992
Accrued wages	305,996
Deferred revenues	1,720,473
Compensated absences and teacher load units	(22,002)
Net OPEB obligation	373,971
Net cash used in operating activities	<u>\$ (61,171,835)</u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2012

Note 1: The Reporting Entity

Santa Barbara Community College District (District) provides higher education in the County of Santa Barbara (County), in the State of California (State). The District consists of one community college with a continuing education division located in Santa Barbara, California.

For financial reporting purposes, the District includes all funds, which comprise the primary government and all component units in accordance with GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity." The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. One of the basic criteria for including a potential component unit is whether the nature and significance of the relationship between the reporting entity and the component unit are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has identified the Foundation for Santa Barbara City College as a discretely presented component unit for inclusion in the District's financial statements.

The Foundation for Santa Barbara City College (Foundation) is a legally separate, tax-exempt component unit of Santa Barbara Community College District. The Foundation provides financial support for various college-related programs including student scholarships and awards, general department and program support, equipment purchases and capital improvements, and faculty research and teaching activities. The Board of the Foundation is self-perpetuating and numbers no less than twenty-one but no more than forty-five directors. At least seven of the members of the Board are either trustees or members of the staff of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

During the year ended June 30, 2012, the Foundation distributed \$2,900,162 to the District for restricted purposes and distributed \$911,123 to students for scholarships and awards. Complete financial statements for the Foundation can be obtained from the Foundation's office at 721 Cliff Drive, Santa Barbara, CA 93109-2394.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 2

Note 2: Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's basic financial statements provide a comprehensive look at its financial activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the years for which they are levied. Grants are recognized as revenue when all eligibility requirements imposed by the grantor have been met.

All intra-district transactions have been eliminated.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected not to apply FASB pronouncements issued after that date.

Budgets and Budgetary Accounting

By State law, the District's Governing Board must adopt and approve a tentative budget no later than July 1st, and adopt and approve a final budget no later than September 15th. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied this requirement.

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures.

Receivables

Receivables consist of amounts due from Federal, State and local governments, or private sources, in connection with reimbursement of allowable expenses based on a contract or agreement between the District and the funding source. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students' faculty and staff and the majority or each residing in the State of California. When receivables are determined to be uncollectible, a direct write-off is recorded.

Inventory

Inventory, primarily bookstore merchandise, is carried at the lower of cost or market using the first-in, first-out ("FIFO") method. The cost is recognized as expense as the inventory is consumed.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 3

Note 2: Summary of Significant Accounting Policies (Continued)

Prepaid Expense

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the basic financial statements.

Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of \$5,000 or more (for equipment) and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expenses are incurred. Depreciation of equipment and vehicles, facilities and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Expenditures for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Buildings and improvements	50 years
Portable buildings	15 years
Land improvements	10 years
Equipment and vehicles	8 years
Technology equipment	3 years

Deferred Revenues

Deferred revenues include revenues that were collected by the District as of June 30, 2012, but have not yet been earned including Federal and State financial assistance and enrollment fees.

Noncurrent Liabilities

Noncurrent liabilities include amounts on compensated absences and teacher load units, net OPEB obligation, loan payable, and bond payable with maturities greater than one year.

Amounts Held for Others

Amounts held for others represent funds held by the District for student clubs.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 4

Note 2: Summary of Significant Accounting Policies (Continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by the District.

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed restrictions or that expire by the passing of time.

Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward the restricted resources, and then towards the unrestricted resources.

Operating and Nonoperating Transactions

The District has classified its revenues and expenses as either operating or nonoperating. Revenues and expenses are classified according to the following criteria:

Operating: these revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, most Federal, State and local grants and contracts and federal appropriations. Operating expenses include salaries, employee benefits, supplies, materials, services, utilities and depreciation.

Nonoperating: these revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources such as State appropriations and investment income. Nonoperating expenses include interest on capital asset-related debt.

Tuition and Fees

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between the tuition and fees charged by the District and the amount that is waived by the Board of Governor's Waiver (BOGW) on the student's behalf.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 5

Note 2: Summary of Significant Accounting Policies (Continued)

Employee Retirement Plans

Qualified employees are covered under defined benefit retirement plans (State Teachers' Retirement System or Public Employees' Retirement System) maintained by agencies of the State of California. District contributions to these plans are paid or accrued currently based upon a statutorily required percentage of qualified employees' salaries.

Accrued Vacation, Compensated Absences, Teacher Load Units and Sick Leave Pay

Accumulated unpaid benefits for vacation and compensated absences are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations of the year in which they are to be paid. Teacher load units accumulate according to the terms of the teacher's contract and will be liquidated in future years as employees elect to use them. Accumulated teacher load units may be used to augment a teaching load up to the standard requirement or to augment sabbatical leave so that an instructor may receive full pay while on sabbatical. Accumulated teacher load units may be paid out in cash upon termination of employment. Accumulated employee sick leave benefits are not recognized as liabilities of the District as the rights to these benefits do not vest. Benefits are recorded as expenditures in the period that sick leaves are taken.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Events subsequent to June 30, 2012 have been evaluated through November 9, 2012, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits with banks, deposits in external investment pools, and short-term investments with an original maturity of three months or less from the date of acquisition.

At June 30, 2012, District cash consisted of the following:

Deposits:	
Cash on hand and in banks	\$ 6,268,893

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 6

Note 3: Cash and Investments (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk in addition to the California Government Code collateral requirements. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All deposits held by financial institutions are fully insured or collateralized with securities, held by the pledging financial institutions' trust departments in the District's name.

At June 30, 2012, District investments consisted of the following:

Pooled Investment Funds:	
Cash in County Treasury	\$ 55,373,261
Local Agency Investment Fund (LAIF)	\$ 25,701

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Santa Barbara County Treasury, an external investment pool. The County pools these funds with those of other governmental entities in the county and invests the cash. These pooled funds are carried at fair value. Interest is earned based on average daily balance and is deposited quarterly into participating funds. Any investment gains and losses are proportionately shared by all funds in the pool. The County is restricted by the California Government Code to invest in obligations issued by the United States Treasury; obligations, participations, or other instruments of or issued by a federal agency or a United States government sponsored enterprise; obligations of State and local agencies of this State; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term corporate notes; as well as other investments established by the California Government Code. The County's report discloses the required information in accordance with Governmental Accounting Standards Board Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Local Agency Investment Fund (LAIF)

The District maintained investments with the State of California Local Agency Investment Fund (LAIF). The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. State statutes, bond resolutions, and LAIF investment policy resolutions allow investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds and other investments. The LAIF's report discloses the required information in accordance with Governmental Accounting Standards Board Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2012
Page 7

Note 3: Cash and Investments (Continued)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices. Santa Barbara County Treasury pooled investment fund and the LAIF are unrated.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District's investments in the Santa Barbara County Treasury represent 99.95% of total investments.

Note 4: Foundation Cash and Investments

At June 30, 2012, Foundation cash and investments were presented at their aggregate fair value based on quoted market values, except real estate which is based on donated value less depreciation, and consisted of the following:

Cash and cash equivalents	\$ 2,845,962
Marketable funds	21,983,694
Equity securities	100,380
Alternative investments	<u>7,554,632</u>
Total	<u>\$ 32,484,668</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 8

Note 5: Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2012, is shown below:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance June 30, 2012</u>
Capital assets not being depreciated:					
Construction in progress	\$ 27,781,341	\$ 10,709,457	\$ (107,006)	\$ (3,782,087)	\$ 34,601,705
Land	5,336,616				5,336,616
Totals	<u>33,117,957</u>	<u>10,709,457</u>	<u>(107,006)</u>	<u>(3,782,087)</u>	<u>39,938,321</u>
Capital assets being depreciated:					
Buildings	114,699,081			3,717,293	118,416,374
Leasehold improvements	657,403				657,403
Equipment	11,282,545	449,954	(1,046,612)	64,794	10,750,681
Totals	<u>126,639,029</u>	<u>449,954</u>	<u>(1,046,612)</u>	<u>3,782,087</u>	<u>129,824,458</u>
Less accumulated depreciation for:					
Buildings	36,652,489	3,334,353			39,986,842
Leasehold improvements	312,265	32,870			345,135
Equipment	9,350,846	660,405	(1,046,612)		8,964,639
Totals	<u>46,315,600</u>	<u>4,027,628</u>	<u>(1,046,612)</u>		<u>49,296,616</u>
Total capital assets being depreciated, net	<u>80,323,429</u>	<u>(3,577,674)</u>	<u>-</u>	<u>3,782,087</u>	<u>80,527,842</u>
Capital assets, net	<u>\$ 113,441,386</u>	<u>\$ 7,131,783</u>	<u>\$ (107,006)</u>	<u>\$ -</u>	<u>\$ 120,466,163</u>

Note 6: Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2012, is shown below:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Compensated absences	\$ 2,008,194	\$ 41,334	\$	\$ 2,049,528	\$ 1,360,887
Teacher load units	1,247,444		63,336	1,184,108	183,992
Net OPEB obligation	958,362	373,971		1,332,333	
General obligation bonds	44,905,000		100,000	44,805,000	180,000
Loan payable	1,933,982		116,386	1,817,596	121,232
Totals	<u>\$ 51,052,982</u>	<u>\$ 415,305</u>	<u>\$ 279,722</u>	<u>\$ 51,188,565</u>	<u>\$ 1,846,111</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 9

Note 7: Net Other Postemployment Benefits (OPEB) Obligation

Plan Description

The District provides post-employment health care benefits under a retirement incentive plan, the Early Retiree Health Benefit Plan (the Plan). The Plan is a single-employer defined benefit plan and is administered by the District. The Plan does not issue a stand-alone financial report. Under terms of the current agreement, the Plan is available to all regular salaried academic and classified employees age 55 or older who work 15 years. Retirees receive benefits until age 65. After age 65, retirees may continue insurance coverage through the District on a self-pay basis.

Funding Policy

The contribution requirements of the District are established by the District and the District's bargaining units. For the fiscal year ended June 30, 2012, the District contributed \$233,866, all of which was used for current premiums. Contributions ranged from \$390 to \$576 per month for 48 retirees. The maximum contribution per year is \$5,755 for an individual participant.

As required by GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost of one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits, therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 10

Note 7: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

The following table shows components of the District’s annual OPEB cost for the fiscal year ended June 30, 2012, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation:

Annual Required Contributions	\$ 602,368
Interest on Net OPEB Obligation	47,918
Adjustment to Annual Required Contributions	<u>(42,449)</u>
Annual OPEB cost	607,837
Contributions made	<u>(233,866)</u>
Increase in Net OPEB Obligation	373,971
Net OPEB Obligation - beginning of year	<u>958,362</u>
Net OPEB Obligation - end of year	<u><u>\$ 1,332,333</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$ 567,960	\$ 196,940	34.7%	\$ 371,020
6/30/10	\$ 497,368	\$ 186,668	37.5%	\$ 681,720
6/30/11	\$ 499,142	\$ 222,500	44.6%	\$ 958,362
6/30/12	\$ 607,837	\$ 233,866	38.5%	\$ 1,332,333

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2012, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/1/12	\$ -	\$ 3,967,021	\$ 3,967,021	0.0%	\$ 43,980,343	9.0%

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 11

Note 7: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the September 13, 2012 actuarial valuation as of August 1, 2012, the entry age normal actuarial cost method was used. The actuarial assumption included a 5% investment rate of return, based on long-term return on Plan assets, and the cost trend rate for health care of 3%. These assumptions reflect an implicit 3% general inflation assumption. The UAAL is being amortized at a level dollar method over 30 years. The remaining amortization period as of June 30, 2012 was 28 years.

Note 8: Bond Payable

On December 11, 2008, the District issued the Measure V general obligation bonds in the amount of \$47,000,000 with interest rates ranging from 3.5 to 5.75%. Principal and interest payments are due each February 1 and August 1 through August 1, 2033. At June 30, 2012, the bond payable principal balance outstanding was \$44,805,000.

At June 30, 2012, future minimum payments were as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 180,000	\$ 2,316,550	\$ 2,496,550
2014	285,000	2,308,056	2,593,056
2015	445,000	2,293,812	2,738,812
2016	565,000	2,272,906	2,837,906
2017	735,000	2,240,687	2,975,687
2018-2022	6,390,000	10,326,212	16,716,212
2023-2027	11,480,000	8,068,306	19,548,306
2028-2032	16,700,000	4,394,247	21,094,247
2033-2034	<u>8,025,000</u>	<u>427,224</u>	<u>8,452,224</u>
Total	<u>\$ 44,805,000</u>	<u>\$ 34,648,000</u>	<u>\$ 79,453,000</u>

Note 9: Loan Payable

On June 21, 2007, the District signed a Promissory Note and Loan Agreement for \$1,950,000 with the State of California, Energy Resources Conservation and Development Commission ("Commission") in order to finance energy efficiency projects. The principal and interest at 3.95% per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2012. Interest only payments are due in December 2011 and June 2012. Loan funds are disbursed to the District on a reimbursement basis based on invoices submitted by the District which totaled \$1,950,000. At June 30, 2012, the outstanding principal balance on the loan payable was \$1,817,596.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2010
Page 12

Note 9: Loan Payable (Continued)

At June 30, 2012, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 121,232	\$ 70,615	\$ 191,847
2014	126,067	65,779	191,846
2015	131,097	60,750	191,847
2016	136,177	55,669	191,846
2017	141,758	50,088	191,846
2018-2021	625,792	141,593	767,385
2022-2024	<u>535,473</u>	<u>37,520</u>	<u>572,993</u>
Total	<u>\$ 1,817,596</u>	<u>\$ 482,014</u>	<u>\$ 2,299,610</u>

Note 10: Unrestricted Net Assets

At June 30, 2012, Board of Trustees' designations of unrestricted net assets were as follows:

Budgeted deficit for 2012/13	\$ 1,716,349
Reserve for economic uncertainties	<u>4,226,800</u>
Total designated unrestricted net assets	5,943,149
Undesignated	<u>12,164,005</u>
Total unrestricted net assets	<u>\$ 18,107,154</u>

Note 11: Operating Leases

The District has entered into leases for equipment and facilities with lease terms in excess of one year. At June 30, 2012, future minimum lease payments under these agreements were as follows:

<u>Year Ending June 30,</u>	
2013	\$ 356,294
2014	123,941
2015	<u>7,363</u>
Total	<u>\$ 487,598</u>

Total rent expense of \$319,775 is included in other operating expenses and services for the year ended June 30, 2012.

Note 12: Employee Retirement Systems

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In general, academic employees are members of the California State Teachers' Retirement System, and classified employees are members of the California Public Employees' Retirement System.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 13

Note 12: Employee Retirement Systems (Continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description: The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS, 7667 Folsom Boulevard, Sacramento, California 95826, or from their web site.

Funding Policy: Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25% of annual payroll.

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,945,639, \$2,888,443 and \$2,727,134, respectively, and equal 100% of the required contributions for each year.

California Public Employees' Retirement System (CalPERS)

Plan Description: The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814, or from their web site.

Funding Policy: Active plan members in CalPERS are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the year ended June 30, 2012, was 10.923%.

Annual Pension Cost: The contribution requirements of the plan members are established by State statute. The District's CalPERS contributions for the years ended June 30, 2012, 2011, and 2010 were \$2,193,811, \$2,166,996, and \$1,999,379, respectively, and equal 100% of the required contributions for each year.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2012

Page 14

Note 13: Joint Ventures (Joint Powers Agreements)

The District participates in a joint venture under a joint powers agreement (JPA) with the Alliance of Schools for Cooperative Insurance Programs (ASCIP). ASCIP was established to provide services necessary and appropriate for the development, operation and maintenance of a self-insurance system for primary general and automobile liability coverage protection for claims against the public educational agencies in California who make up the ASCIP membership.

The general and automobile liability coverage provides up to \$5,000,000 in limits less the District's self-insured retention (SIR) of \$25,000 per occurrence. Each member district is entitled to cast one vote to elect governing board representative(s) to represent the member district on ASCIP's governing board. The governing board is responsible for establishing premium rates and making budget and operational decisions for ASCIP independent of any influence by the District beyond their board member representation. Each member district shares surpluses and deficits proportionate to their participation in ASCIP.

For the fiscal year ended June 30, 2011 (the most recent data available), the JPA had revenues of \$180,970,994, expenses of \$178,238,995, nonoperating investment income of \$3,346,138, and ending net assets totaling \$112,032,945. The relationship between the District and ASCIP is such that ASCIP is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity".

The District participates in an additional banking JPA for workers' compensation self-insurance coverage through the Southern California Community College Districts Joint Powers Authority (SCCCD). SCCCDD provides workers' compensation coverage and a reserve to be used toward funding long-term retiree health insurance liabilities for its six member districts. Payments transferred to funds maintained under the JPA are expensed when made. Based upon an actuarial study, District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments. An actuarial study dated April 2009 estimated the present value of future post retirement medical benefits. A new actuarial study is planned for the upcoming year. The District's share of the JPA retained earnings balance at June 30, 2011 (the most recent data available) was \$7,406,382 and \$1,020,170 for the workers' compensation insurance fund and the retiree health insurance fund, respectively. During fiscal year 2011-12, the District withdrew \$7,760,842 from SCCCDD.

The JPA participates in the Protected Insurance Programs for Schools (PIPS), a pooled risk JPA. The purpose of the program is to provide workers' compensation insurance coverage at competitive group rates.

The relationship between the District and the SCCCDD is such that the SCCCDD is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity".

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2012
Page 15

Note 13: Joint Ventures (Joint Powers Agreements) (Continued)

The District participates in a joint venture under a JPA with the Schools Excess Liability Fund (SELF). SELF was established to provide excess general and automobile liability coverage. The excess liability limits are designed to follow the primary liability limits provided by ASCIP. Coverage under the current program provides for the payment of covered claims incurred by the District up to \$20,000,000 per occurrence. The District absorbs the first \$5,000,000 of liability (which is comprised of the District’s SIR, ASCIP and SELF limits). Each member district is assessed a premium in accordance with the joint powers agreement.

The relationship between the District and SELF is such that the SELF is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, “The Financial Reporting Entity”.

Note 14: Operating Expenses by Functional Classifications

The District’s operating expenses by functional classifications for the year ended June 30, 2012, are as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 48,190,068	\$ 2,247,746	\$	\$	\$ 50,437,814
Instructional administration	4,431,038	749,798			5,180,836
Instructional support services	2,108,981	170,925			2,279,906
Admissions and records	930,469	18,516			948,985
Counseling and guidance	4,681,022	67,016			4,748,038
Other student services	5,331,156	2,235,192			7,566,348
Operations and maintenance	3,209,306	308,338	1,408,181		4,925,825
Planning and policy making	1,630,480	286,305			1,916,785
General institutional services	10,180,583	3,270,786			13,451,369
Community services	348,411	41,114			389,525
Ancillary services	3,924,917	4,532,771			8,457,688
Auxiliary operations		641,374			641,374
Physical property and related acquisitions	73,412	12,414,175			12,487,587
Transfers and student payments		33,915,109			33,915,109
Depreciation				4,027,628	4,027,628
Total	\$ 85,039,843	\$ 60,899,165	\$ 1,408,181	\$ 4,027,628	\$ 151,374,817

Note 15: Commitments and Contingencies

Categorical Awards and Allowances

The District has received Federal and State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Construction Contracts

The District has commitments of \$13,394,209 under various construction contracts, some of which are in the process of being completed.

Note 16: Self-Insurance Fund

The District has self-insurance for losses due to employment practices, environmental pollution and property losses due to earthquake, land subsidence, or flood. Payments are funded by the District. The District believes any claims incurred but not reported as of June 30, 2012, would not be material to the District's financial statements and no liability has been recorded for potential claims.

Santa Barbara Community College District
Schedule of Funding Progress for OPEB Obligation
June 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/07	\$ -	\$ 4,110,034	\$ 4,110,034	0.0%	\$ 44,899,547	9.2%
8/1/10	\$ -	\$ 3,890,970	\$ 3,890,970	0.0%	\$ 45,009,948	8.6%
8/1/12	\$ -	\$ 3,967,021	\$ 3,967,021	0.0%	\$ 43,980,343	9.0%

Supplementary Information

Independent Auditors' Report on Supplementary Information

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

We have audited the financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting principles generally accepted in the United States of America; the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the standards identified by the *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the business-type activities of Santa Barbara Community College District, which collectively comprise the District's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements and includes the following supplementary information:

- Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records

Board of Trustees

Santa Barbara Community College District

Page 2

- Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets
- Reconciliation of ECS 84362 (50 Percent Law) Calculation
- Note to the Supplementary Information

Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Glenn Burdette Attest Corporation
San Luis Obispo, California

November 9, 2012

**Santa Barbara Community College District
Organization
June 30, 2012**

The District was established in 1964 and operates one community college and one continuing education division.

Board of Trustees

Name	Office	Term Expires
Dr. Peter Haslund	President	2014
Ms. Lisa Macker	Vice-President	2014
Ms. Marty Blum	Member	2014
Ms. Marsha Croninger	Member	2014
Mr. Morris M. Jurkowitz	Member	2012
Ms. Joan M. Livingston	Member	2012
Mr. Luis A. Villegas	Member	2012

Administration

Dr. Jack Friedlander
ACTING SUPERINTENDENT/PRESIDENT

Ms. Marilyn Spaventa
ACTING EXECUTIVE VICE-PRESIDENT, EDUCATIONAL PROGRAMS

Mr. Joseph Sullivan
VICE-PRESIDENT, BUSINESS SERVICES

Dr. Ofelia R. Arellano
VICE-PRESIDENT, CONTINUING EDUCATION

Ms. Patricia English
INTERIM VICE-PRESIDENT, HUMAN RESOURCES

Dr. Paul Bishop
VICE PRESIDENT, INFORMATION TECHNOLOGY

Santa Barbara Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce:		
Passed through Foundation of California Community Colleges		
California Connects - ARRA	11.557	\$ 4,195
Total U.S. Department of Commerce		<u>4,195</u>
U.S. Department of Veterans Affairs:		
Post 9/11 Veterans Educational Assistance	64.028	1,470
Total U.S. Department of Veterans Affairs		<u>1,470</u>
U.S. Department of Labor:		
Passed through California Department of Education (CDE):		
Workforce Investment Act:		
Associated Degree Nursing (RN) Programs	17.258	429,126
Passed through SB County Social Services:		
Workforce Investment Act Youth Activities	17.259	1,644
Workforce Investment Board Contract - ARRA	17.258 (30%)	46,499
Total U.S. Department of Labor		<u>477,269</u>
U.S. Department of Education:		
Passed through California Department of Education (CDE):		
Adult Education and Family Literacy	84.002A	445,987
Higher Education - Institutional Aid - Title V *	84.031S	468,311
Higher Education - Institutional Aid - Title V Yr 2 *	84.031S	109,738
Higher Education - Institutional Aid - STEM *	84.031C	107,263
UCLA Aging Education Project	84.116	14,282
Vocational And Technical Training	84.048	490,803
Technology Preparation	84.048	46,970
Student Financial Aid:		
Supplemental Educational Opportunity Grant (SEOG) *	84.007	163,560
Pell Grant Program *	84.063	16,208,710
Federal Direct Loans *	84.268	15,142,752
Federal Work Study *	84.033	342,218
Total U.S. Department of Education		<u>33,540,594</u>

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Santa Barbara Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012
Page 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
Passed through California Department of Education (CDE):		
Temporary Assistance for Needy Families	93.558	\$ 35,493
Foster and Kinship Care	93.658 (45%)	56,242
Pre-Kindergarten Resource Contract/Child Development	93.575	34,337
IT Professionals Health Care Consortium - ARRA *	93.721	70,761
IT Professionals Health Care Consortium Yr 2 - ARRA *	93.721	176,952
Total U.S. Department of Health and Human Services		<u>373,785</u>
U.S. Department of Agriculture:		
Passed through California Department of Education (CDE):		
Child Care Food Program	10.558	<u>23,720</u>
Total U.S. Department of Agriculture		<u>23,720</u>
National Science Foundation		
Passed through Santa Clarita Community College:		
National Science Foundation CREATE Renewable Energy	47.076	3,434
Passed through University of CA Santa Barbara:		
Social, Behavioral and Economic Sciences Nanotechnology	47.075	5,834
National Science Foundation INSET	47.041	9,944
Total National Science Foundation		<u>19,212</u>
Total expenditures of federal awards		<u>\$ 34,440,245</u>

* Major federal award program

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Santa Barbara Community College District
Schedule of State Financial Awards
Year Ended June 30, 2012

<u>Program</u>	<u>Program Revenues</u>			
	<u>Cash Received</u>	<u>Prior Year Deferral</u>	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>
Adult Basic ED ESL Grant	\$ 206,091	\$ 153,421	\$	\$ 136,739
BFAP Board Financial Assistance	474,661			
BFAP Board Financial Asst. Carryover		3,137		
Cal Works	126,636			
CARE	67,830			
Child Development Training	9,350		675	
Disabled Students Programs	759,960			
Economic Development HWI (odd year)	80,642			32,856
Economic Development HWI C/F (even year)		28,607	53,761	
Enrollment Growth ADN Programs	75,337		17,540	
Extended Opportunity Program and Services	757,170			
Faculty/Staff Professional Development		6,776		5,662
Fin Aid Media Carryover		158,226		
Financial Aid Media Campaign	2,520,000		2,329,705	423,541
Foster Parent Grant (55%)	49,642		19,098	
Statewide Strategic Hub (odd year)	60,000		27,369	
Statewide Strategic Hub C/F (even year)		3,324	139,999	
Lottery	246,927	529,019	218,430	532,340
MESA Program (odd year)	37,875			158
MESA Program C/F (even year)	12,625	3,661		
Credit Matriculation	435,564			
Non-Credit Matriculation	421,330			
Staff Diversity	7,817	7,529		10,167
CTE Comm. Collaborative		205,338		
CTE Comm. Collaborative	246,810			224,349
CTE Comm. Collaborative		400,000		275,175
CTE Comm. Collaborative		49,054		
CTE Comm. Collaborative		130,000		128,790
Strategic Leadership Coord C/F (even year)	52,710			
Strategic Leadership Coord (odd year)	103,500			92,031
Child Development Program	64,596		1,094	
Childcare Tax Bailout	28,275			
CalGRANT	617,785		10,835	
Totals	<u>\$ 7,463,133</u>	<u>\$ 1,678,092</u>	<u>\$ 2,818,506</u>	<u>\$ 1,861,808</u>

*See independent auditors' report on supplementary information.
See accompanying note to supplementary information.*

Santa Barbara Community College District
Schedule of State Financial Awards
Year Ended June 30, 2012
Page 2

<u>Program</u>	<u>Total Revenue</u>	<u>Program Expenditures</u>
Adult Basic ED ESL Grant	\$ 222,773	\$ 222,773
BFAP Board Financial Assistance	474,661	474,661
BFAP Board Financial Asst. Carryover	3,137	3,137
Cal Works	126,636	126,636
CARE	67,830	67,830
Child Development Training	10,025	10,025
Disabled Students Programs	759,960	759,960
Economic Development HWI (odd year)	47,786	47,786
Economic Development HWI C/F (even year)	82,368	82,368
Enrollment Growth ADN Programs	92,877	92,877
Extended Opportunity Program and Services	757,170	757,170
Faculty/Staff Professional Development	1,114	1,114
Fin Aid Media Carryover	158,226	158,226
Financial Aid Media Campaign	4,426,164	4,426,164
Foster Parent Grant (55%)	68,740	68,740
Statewide Strategic Hub (odd year)	87,369	87,369
Statewide Strategic Hub C/F (even year)	143,323	143,323
Lottery	462,036	462,036
MESA Program (odd year)	37,717	37,717
MESA Program C/F (even year)	16,286	16,286
Credit Matriculation	435,564	435,564
Non-Credit Matriculation	421,330	421,330
Staff Diversity	5,179	5,179
CTE Comm. Collaborative	205,338	205,338
CTE Comm. Collaborative	22,461	22,461
CTE Comm. Collaborative	124,825	124,825
CTE Comm. Collaborative	49,054	49,054
CTE Comm. Collaborative	1,210	1,210
Strategic Leadership Coord C/F (even year)	52,710	52,710
Strategic Leadership Coord (odd year)	11,469	11,469
Child Development Program	65,690	65,690
Childcare Tax Bailout	28,275	28,275
CalGRANT	628,620	628,620
Totals	<u>\$ 10,097,923</u>	<u>\$ 10,097,923</u>

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Santa Barbara Community College District
Schedule of Workload Measures for State General
Apportionment – Annual (Actual) Attendance
Year Ended June 30, 2012

	Reported Data
A. Summer Intersession (Summer 2011 only)	
1. Noncredit	117.33
2. Credit	1,186.84
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)	
1. Noncredit	-
2. Credit	1.68
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	8,613.13
(b) Daily Census Contact Hours	355.85
2. Actual Hours of Attendance Procedure Courses	
(a) Noncredit	1,654.52
(b) Credit	1,212.13
3. Independent Study/Work Experience	
(a) Weekly Census Contact Hours	1,744.17
(b) Daily Census Contact Hours	65.46
(c) Noncredit Independent Study/Distance Education Courses	-
D. Total FTES	14,951.11
 Supplemental Information (subset of above information)	
E. In-Service Training Courses (FTES)	-
 H. Basic Skills courses and Immigrant Education	
(a) Noncredit	614.70
(b) Credit	862.13
 CCFS 320 Addendum	
CDCP Noncredit FTES	689.08
 Centers FTES	
(a) Noncredit	1,771.85
(b) Credit	315.17

There were no audit adjustments to the reported data.

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Santa Barbara Community College District
Reconciliation of Annual Financial and Budget Report (CCFS-311)
With the District's Accounting Records
Year Ended June 30, 2012

	Fiduciary Fund Type
	Expendable Trusts
June 30, 2012, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	\$ 2,646,833
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	(53,313)
June 30, 2012, Annual Financial Statements Fund Balance	\$ 2,593,520

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Santa Barbara Community College District
Annual Financial and Budget Report (CCFS-311) and
Reconciliation with the Statement of Net Assets and
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012

Description	General Fund	Enterprise Fund Bookstore	Special Revenue Funds	
			Food Service Fund	Child Development Fund
Revenues:				
Federal revenues	\$ 2,862,656	\$	\$ 4,760	\$ 58,057
State revenues	50,191,423			93,965
Local revenues	53,894,232	6,248,816	3,175,118	321,647
Total revenues	<u>106,948,311</u>	<u>6,248,816</u>	<u>3,179,878</u>	<u>473,669</u>
Expenditures:				
Academic salaries	42,763,386			327,217
Classified salaries	22,821,888	699,141	989,888	181,577
Employee benefits	16,205,450	241,551	202,468	182,194
Supplies and materials	2,617,745	4,507,921	1,550,587	39,423
Other operating expenses and services	12,034,967	573,005	149,216	335
Capital outlay	477,937		133,061	
Total expenditures	<u>96,921,373</u>	<u>6,021,618</u>	<u>3,025,220</u>	<u>730,746</u>
Excess (deficiency) of revenues over expenditures	10,026,938	227,198	154,658	(257,077)
Net other financing sources (uses)	<u>(6,797,029)</u>	<u>(94,760)</u>	<u>(20,000)</u>	<u>295,301</u>
Net increase (decrease) in fund balance	3,229,909	132,438	134,658	38,224
Ending fund balance - June 30, 2011	<u>22,464,291</u>	<u>5,741,894</u>	<u>604,889</u>	<u>175,968</u>
Ending fund balance - June 30, 2012	<u>\$ 25,694,200</u>	<u>\$ 5,874,332</u>	<u>\$ 739,547</u>	<u>\$ 214,192</u>
Reconciliation to change in net assets:				
Net change in fund balance	\$ (2,905,449)			
Change in:				
Prepaid expense	(8,129)			
Inventories	(4,715)			
Bond issuance costs, net	(15,848)			
Capital assets	10,860,878			
Depreciation expense	(3,964,803)			
Amounts held for others	(7,409)			
Deferred revenues	17,327			
Compensated absences and teacher load units	22,002			
Bond premium, net	25,064			
Interest payable	1,458			
Net OPEB obligation	(373,971)			
Bond payable	100,000			
Change in net assets	<u>\$ 3,746,405</u>			

See independent auditors' report on supplementary information.
See accompanying note to supplementary information.

Capital Projects Funds	Internal Service Funds	Revenue Bond Construction Fund	Bond Interest & Redemption Fund	Fiduciary Funds Group	Total
\$	\$	\$	\$	\$ 31,543,352	\$ 34,468,825
				628,620	50,914,008
816,425	6,102	79,681	3,487,329	1,998,954	70,028,304
<u>816,425</u>	<u>6,102</u>	<u>79,681</u>	<u>3,487,329</u>	<u>34,170,926</u>	<u>155,411,137</u>
		18,335			43,108,938
		50,868			24,743,362
		3,911			16,835,574
		1,410		633,385	9,350,471
155,198	97,485	234,391		347,119	13,591,716
2,812,448		10,874,440		49,782	14,347,668
<u>2,967,646</u>	<u>97,485</u>	<u>11,183,355</u>		<u>1,030,286</u>	<u>121,977,729</u>
(2,151,221)	(91,383)	(11,103,674)	3,487,329	33,140,640	33,433,408
<u>5,708,616</u>			<u>(2,421,850)</u>	<u>(33,009,135)</u>	<u>(36,338,857)</u>
3,557,395	(91,383)	(11,103,674)	1,065,479	131,505	(2,905,449)
<u>13,129,880</u>	<u>710,291</u>	<u>20,731,085</u>	<u>3,260,492</u>	<u>2,515,328</u>	<u>69,334,118</u>
<u>\$ 16,687,275</u>	<u>\$ 618,908</u>	<u>\$ 9,627,411</u>	<u>\$ 4,325,971</u>	<u>\$ 2,646,833</u>	<u>\$ 66,428,669</u>

Reconciliation to ending net assets:

Ending fund balance	\$ 66,428,669
Prepaid expense	103,827
Inventories	(4,715)
Bond issuance costs, net	334,123
Capital assets, net	118,778,365
Amounts held for others	(53,313)
Deferred revenues	618,316
Compensated absences and teacher load units	(3,233,636)
Bond premium, net	(528,435)
Interest payable	(966,542)
Net OPEB obligation	(1,332,333)
Bond payable	(44,805,000)
Ending net assets	<u>\$ 135,339,326</u>

Santa Barbara Community College District
Reconciliation of ECS 84362 (50 Percent Law) Calculation
Year Ended June 30, 2012

	Object / TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	17,792,295		17,792,295	18,152,555		18,152,555
Other	1300	15,806,535		15,806,535	15,962,608		15,962,608
Total Instructional Salaries		33,598,830		33,598,830	34,115,163		34,115,163
Non-Instructional Salaries							
Contract or Regular	1200				4,851,480		4,851,480
Other	1400				966,060		966,060
Total Non-Instructional Salaries					5,817,540		5,817,540
Total Academic Salaries		33,598,830		33,598,830	39,932,703		39,932,703
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100				13,983,032		13,983,032
Other	2300				888,636		888,636
Total Non-instructional Salaries					14,871,668		14,871,668
Instructional Aides							
Regular Status	2200	2,032,255		2,032,255	2,121,483		2,121,483
Other	2400	1,252,772		1,252,772	1,312,391		1,312,391
Total Instructional Aides		3,285,027		3,285,027	3,433,874		3,433,874
Total Classified Salaries		3,285,027		3,285,027	18,305,542		18,305,542
Employee Benefits	3000	7,599,243		7,599,243	14,522,252		14,522,252
Supplies and Materials	4000				1,957,231		1,957,231
Other Operating Expenses	5000				7,250,525		7,250,525
Equipment Replacement	6420				17,373		17,373
Total Expenditures Prior to Exclusions		44,483,100		44,483,100	81,985,626		81,985,626

*See independent auditors' report on supplementary information.
See accompanying note to supplementary information.*

Santa Barbara Community College District
 Reconciliation of ECS 84362 (50 Percent Law) Calculation
 Year Ended June 30, 2012
 Page 2

	Object / TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	113,360		113,360	113,360		113,360
Student Health Services Above Amount Collected	6441				6,220		6,220
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				181,403		181,403
Objects to Exclude							
Rents and Leases	5060				219,464		219,464
Lottery Expenditures							
Academic Salaries	1000	1,095,900		1,095,900	1,740,870		1,740,870
Classified Salaries	2000						
Employee Benefits	3000	273,975		273,975	435,217		435,217
Supplies and Materials	4000						
Software	4100						
Books, Magazines, and Periodicals	4200						
Instructional Supplies and Materials	4300						
Noninstructional, Supplies & Materials	4400						
Total Supplies and Materials							
Other Operating Expenses and Services	5000						
Capital Outlay	6000						
Library Books	6300				78,493		78,493
Equipment	6400						
Equipment - Additional	6410				117,078		117,078
Equipment - Replacement	6420				17,373		17,373
Total Equipment					134,451		134,451
Total Capital Outlay					212,944		212,944
Other Outgo	7000						
Total Exclusions		1,369,875		1,369,875	2,614,715		2,614,715
Total for ECS 84362, 50% Law		43,113,225		43,113,225	79,370,911		79,370,911
Percent of CEE (Instructional Salary Cost / Total CEE)		54.32%		54.32%			
50% of Current Expense of Education					39,685,456		39,685,456

See independent auditors' report on supplementary information.
 See accompanying note to supplementary information.

Santa Barbara Community College District
Note to Supplementary Information
June 30, 2012

Note 1: Purpose of Schedules

Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards

The audit of the District for the fiscal year ended June 30, 2012, was conducted in accordance with OMB Circular A-133 which requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and State requirements, the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Awards were prepared by the District.

General: The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting: The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards are presented using the accrual basis of accounting, which is described in Note 1 to the District's basic financial statements.

Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance

Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance represents the basis of apportionment of the District's annual source of State funding. This schedule includes only the apportionment generating FTES of California residents.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records

This schedule provides the information necessary to reconcile the fund equity of all funds reported on the Form CCFS-311 to the District's accounting records in accordance with the State Budget and Accounting Manual.

Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

A reconciliation is provided to reconcile the CCFS-311, which is on a modified accrual basis of accounting to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets, which are on the accrual basis of accounting.

Reconciliation of ECS 84362 (50 Percent Law) Calculation

A reconciliation is provided to reconcile the CCFS-311 to the District's ECS 84362 (50 Percent Law) calculation.

Other Independent Auditors' Reports

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

We have audited the financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2012, which comprise the District's basic financial statements and have issued our report thereon dated November 9, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Foundation for Santa Barbara City College, as described in our report on the District's financial statements. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

53

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Board of Trustees

Santa Barbara Community College District

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Glenn Burdette Attest Corporation
San Luis Obispo, California

November 9, 2012

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

Compliance

We have audited the compliance of Santa Barbara Community College District (the District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

55

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Board of Trustees

Santa Barbara Community College District

Page 2

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Glenn Burdette Attest Corporation
San Luis Obispo, California

November 9, 2012

Independent Auditors' Report on State Compliance Requirements

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

We have audited the compliance of Santa Barbara Community College District (the District), with the compliance requirements described in Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM) for the year ended June 30, 2012. The District's programs are identified in the table below. Compliance with the requirements of the state laws and regulations applicable to each program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM). Those standards and the CDAM require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit also includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

Program Area Tested

Compliance Requirement

Salaries of Classroom Instructors

Each District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education (CEE) in accordance with Section 84362 of the Education Code.

Board of Trustees
Santa Barbara Community College District
Page 2

Program Area Tested

Compliance Requirement

Apportionment for Instructional Service Agreements/Contracts

The District can claim FTES for classes given through instructional service agreements/contracts provided certain requirements are met. These requirements include a written agreement, instruction of approved programs, publishing of courses, qualification of instructors and control, supervision and responsibility over the educational programs.

State General Apportionment Required Data Elements

Each District shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment: Credit Full-time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance, alternative attendance accounting procedure and apprenticeship courses, noncredit FTES in actual hour of attendance, independent study and distance education courses.

Residency Determination For Credit Courses

Each District must act to ensure that only the attendance of California residents is claimed for State support for credit classes.

Students Actively Enrolled

Each District shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

Concurrent Enrollment of K-12 Students in Community College Credit Courses

The District can claim FTES for the attendance of K-12 pupils who take courses offered by the District under concurrent enrollment if the District receives parental consent, courses are held in facilities open to the general public, courses are approved by the District, the instructor teaching the course meets the minimum qualifications, and instruction was conducted under the immediate supervision of a responsible District employee.

GANN Limit Calculation

Each District's adopted annual financial and budget report shall include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code Division 9 (commencing with Section 7900). The calculation and adoption shall be verified by certified public accountants as part of annual financial audits.

CalWORKS

Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

Board of Trustees
Santa Barbara Community College District
Page 3

Program Area Tested

Compliance Requirement

Open Enrollment

Districts shall adopt by resolution a policy related to open courses, in addition a statement of this policy shall be published in the official catalog, and/or schedule of classes, and addenda to the schedules of classes for which full-time equivalent students is reported for State apportionment. Each District shall file a copy of the statement with the Chancellor.

Student Fees – Instructional and Other Materials

Districts are allowed to require students to provide various types of instructional materials. The governing board of the Districts must have adopted policies or regulations that specify the conditions under which such materials will be required.

Student Fees – Health Fees and Use of Health Fee Funds

Districts are permitted to require students to purchase instructional materials from them only under limited circumstances. With respect to health fees, the Districts must advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions.

Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)

The District is required to expend EOPS funds to provide services that are specifically designed to supplement the college’s existing support programs and to help EOPS eligible students to complete their educational goal. The District must provide education and support services and activities for the academically under-prepared, welfare-dependent, single head-of-household student population under the supplemental component of EOPS.

Disabled Students Programs and Services (DSPS)

The District should provide services and programs to integrate the disabled student into the general college program; provide educational intervention leading to vocational preparation, transfer or general education; and increase independence and referral of students to community resources most appropriate to their needs. Students must have verifiable disabilities and student-count data must be submitted annually to document eligible DSPS students served.

Program Area Tested

Compliance Requirement

Curriculum and Instruction

The District's noncredit number on the CCFS 320 should: be fully supported by documentation; not include PE of dance classes; have the required approval by the Chancellor's Office; be available in the course outline of record.

To Be Arranged Hours (TBA)

Districts are required to list TBA hours in the schedule of classes and describe them in the course outline. Districts need to track TBA hour participation carefully and make sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of the census point for the particular course.

In our opinion, Santa Barbara Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported and which are described in the accompanying schedule of findings and questioned costs as items 12.1, 12.2, 12.3, 12.4, 12.5, 12.6 and 12.7. The District's response to the findings identified in our examination is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Glenn Burdette Attest Corporation
San Luis Obispo, California

November 9, 2012

Findings and Recommendations

**Santa Barbara Community College District
 Schedule of Audit Findings and Questioned Costs
 Year Ended June 30, 2012**

Section I: Summary of Auditors' Results

Financial Statements

(a) Type of auditors' report issued: **Unqualified.**

(b) Internal control over financial reporting:

- Material weakness(es) identified: **No.**
- Significant deficiency(ies) identified not considered to be significant weaknesses: **No.**

(c) Noncompliance material to financial statements noted: **No.**

Federal Awards

(d) Internal control over major programs:

- Material weakness(es) identified: **No.**
- Significant deficiency(ies) identified not considered to be material weaknesses: **No.**

(e) Type of auditors' report issued on compliance for major programs: **Unqualified.**

(f) Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a): **No.**

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.031	Higher Education – Institutional Aid
84.007, 84.268, 84.033, 84.063	Student Financial Aid Cluster
93.721	IT Professionals Health Care Consortium

(g) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

(h) Auditee qualified as low-risk auditee: **Yes.**

State Awards

(i) Internal control over State programs:

- Material weakness(es) identified? **No.**
- Significant deficiency(ies) identified not considered to be material weaknesses? **No.**

(j) Type of auditors' report issued on compliance for State programs: **Qualified.**

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2012
Page 2

Section II: Financial Statement Findings

None.

Section III: Federal Award Findings and Questioned Costs

None.

Section IV: State Compliance Findings and Questioned Costs

Finding 12.1: CalWORKs Expenditures

Criteria: In accordance with Education Code Sections 79200-79203 & 84759, Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

Condition: During our testwork of CalWORKs expenditures, we identified one disbursement \$3,489 made on behalf of a student who was not an eligible CalWORKs recipient-students.

Cause and Effect: Based on discussion with District personnel, this expenditure was improperly recorded under the CalWORKs program due to the fact that the listing of eligible CalWORKs recipient-students had not been updated. The student previously had been eligible but was ineligible at the time of the disbursement.

Questioned Costs: None. The expenditure was reversed out of the CalWORKs program prior to fiscal year-end.

Recommendation: We recommend that the listing used to verify eligible CalWORKs recipient-students be consistently maintained and updated to ensure that funds are expended for eligible CalWORKs recipient-students.

District Response: This oversight of CalWORKs eligibility occurred in the fall 2011 semester when the District was piloting the reorganization of CalWORKs into the Extended Opportunity Programs and Services ("EOPS") administrative structure. During this transitional time, maintenance of student records and documentation of eligibility were evaluated. As a result of the evaluation, a caseload management document system was set up. This new caseload management system will ensure that student eligibility is properly identified and verified.

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2012
Page 3

Section IV: State Compliance Findings and Questioned Costs (Continued)

Finding 12.2: To Be Arranged Hours (TBA)

Criteria: Districts are required to list TBA hours in the official general catalog or the addenda and in the official schedule of classes or addenda thereto in accordance with the provisions of CCR, Title 5, Sections 58102 and 58104.

Condition: During our testwork in accordance with State compliance requirements related to TBA, we identified 10 courses that did not identify the required TBA hours in the official course catalog or addenda. This is a repeat finding from the year ended June 30, 2011.

Cause and Effect: For the 10 courses noted above, the District was not in compliance with the provisions of CCR, Title 5 Sections 58102 and 58104.

Questioned Costs: None.

Recommendation: We recommend that the District list TBA hours for all courses in the office general catalog or addenda and in the official schedule of classes or addenda pursuant to the provisions of CCR, Title 5, Sections 58102 and 58104.

District Response: The Scheduling Office understands the need to publish TBA hours in the annual college catalog. The next opportunity to update the catalog for TBA hours occurred in the summer of 2012 when the 2012-13 catalog was printed. TBA hours were included in the 2012-13 catalog to bring the District into compliance with this requirement.

Finding 12.3: Board Approval of Courses

Criteria: Districts are required to obtain Board approval of credit and noncredit courses reported for apportionment funding following approval by the District's curriculum committee in accordance with CCR, Title 5, Section 5500.5. In addition, under the provisions of CCR, Title 5, Section 59023, minutes of the board or committees thereof are considered to be Class 1- Permanent Records and should be retained indefinitely.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, the District was unable to provide proof of Board approvals for 2 credit courses. This is a repeat finding from the year ended June 30, 2011.

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2012
Page 4

Section IV: State Compliance Findings and Questioned Costs (Continued)

Cause and Effect: For the 2 courses noted above, the District was not in compliance with the provisions of CCR, Title 5, Sections 5500.5 and 59023.

Questioned Costs: None.

Recommendation: We recommend that the District ensure that records listed under the provisions of CCR, Title 5, Section 59023 are retained as required, including Board minutes that document approval of credit courses.

District Response: Beginning in the year 2000, all minutes of board or committee meetings have been maintained in both printed and electronic format. It happens that the 2 courses for which board approval could not be found were from the 1980's and 1990's. The records from this period are in paper format only and stored in a boxed archive. Unfortunately, a manual search of these records failed to locate the required board approvals within the allotted time and available resources. The District will further research its records of Board approval of courses for both original approval and modifications.

Finding 12.4: Scheduling of Courses Based on Five-Minute Increments

Criteria: In accordance with CCR, Title 5 Regulations and the Student Attendance Accounting Manual (SAAM), individual class schedules must be based on five-minute increments for starting and ending times.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified 6 courses with start and end times not based on five-minute increments.

Cause and Effect: These courses are held on a high school campus location and are scheduled according to the high school's bell schedule which is not based on five-minute increments. As a result, the scheduling of the 5 courses noted above is not in accordance with CCR, Title 5 Regulations and the SAAM.

Questioned Costs: None. We verified that the FTEs and related apportionment were properly claimed.

Recommendation: We recommend that the District ensures all courses held at high school campuses adhere to the 5 minute increment scheduling requirement under the SAAM and related SAAM "Addendum Concerning Academic Calendars, Course Scheduling and Related Topics".

District Response: A course held on high school campus must conform to the bell schedule of that campus. Bell schedules do not always observe the five-minute increment. The District does confirm that the length of class time is in compliance for the proper calculation of contact hours for attendance reporting. Beginning in fall 2013, the classes will be aligned with the five-minute increment.

Section IV: State Compliance Findings and Questioned Costs (Continued)

Finding 12.5: Attendance Accounting Method for Hybrid Courses

Criteria: In accordance with the SAAM and the Distance Learning Guidelines (2008 Omnibus), courses that are considered hybrid courses, those courses which have both a lecture and online/distant learning component, are to be classified under the Alternative Attendance Accounting procedure.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified 3 hybrid courses which used the actual hours of attendance procedure instead of the Alternative Attendance Accounting procedure for FTEs claimed and related apportionment.

Cause and Effect: As a result of these 3 hybrid courses using the improper attendance method for apportionment purposes, the District is not in accordance with the SAAM and the Distance Learning Guidelines (2008 Omnibus).

Questioned Costs: FTEs were overstated by 1.98 due to incorrect accounting method used for these hybrid courses.

Recommendation: We recommend that the District ensures that FTEs and related apportionment for all hybrid courses offered by the District are calculated using the Alternative Attendance Accounting procedure as required by the SAAM and the Distance Learning Guidelines (2008 Omnibus).

District Response: These courses were overlooked when the District undertook a major review of the attendance accounting methodology of all courses. An exception report from the student information system will be produced in order to monitor attendance accounting methodology. This report will be used to confirm that the proper attendance method is in use for hybrid courses.

Finding 12.6: Incomplete Attendance Records

Criteria: In accordance with CCR, Title 5, Sections 58020, 58030 and 59025, the District is required to adopt procedures relating to course enrollment, attendance and disenrollment information. Procedures shall include rules for retention of support documentation which shall enable an independent determination regarding the accuracy of tabulations submitted by the District for apportionment funding.

Condition: It is the District's policy to require instructor's to submit attendance records for achievement of positive attendance courses. During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified 1 actual hours of attendance course for which attendance documentation supporting the FTEs could not be provided. We also indentified 2 actual hours of attendance courses for which attendance documentation supporting the FTEs could only be provided for a portion of the course term. We further

Section IV: State Compliance Findings and Questioned Costs (Continued)

identified 2 actual hours of attendance courses for which a student's hours could not be independently verified due to missing attendance support.

We also noted 5 instances in which supporting attendance records did not agree with District tabulations. One instance was a result of attendance input error by an instructor for hours earned under the Actual Hours of Attendance procures. The remaining 4 instances was a result of manual input errors in the District's Banner system for contact hours for the overall course set-up.

Cause and Effect: As we were unable to independently determine the accuracy of the tabulations submitted by the District for FTEs for the courses with missing attendance records and related apportionment funding, the District is not in accordance with its policies set forth to be in compliance with CCR, Title 5, Sections 58020 and 58030.

Questioned Costs: FTEs were overstated by .68 due to incomplete supporting attendance documentation. In addition, FTEs were overstated by 1.52 due to supporting attendance documentation not agreeing to District tabulations.

Recommendation: We recommend that the District ensure attendance records are submitted and retained in accordance with CCR, Title 5, Sections 58020, 58030 and 59025 and the related District's policies.

District Response: The District will develop a standardized process and format for recording positive attendance for spring semester 2013. A new procedure for submission and retention of attendance records will help ensure that the District is in compliance with regulations and policy. In addition, The error in calculating contact hours was the result of a clerical error. A manual calculation was necessary due to a change in the start/end time of the class from a previous semester. If the automatic calculation feature of our Banner student information system had been used, the hours would have been calculated correctly. To prevent this from happening in the future, an automated report will be implemented that will cross-check any manual override calculations.

Finding 12.7: Inclusion of Optional Instructional Hours in Actual Hours of Attendance Procedure

Criteria: In accordance with CCR, Title 5, Sections 58006 and 58022, the District is required to tabulate contact hours under the Actual Hours of Attendance Procedure by calculating the sum of the individual attendance hour for each student at each course meeting as reported by the instructor.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified 2 courses which calculated the actual hours of attendance using the actual student contact hours plus additional optional contact hours.

Section IV: State Compliance Findings and Questioned Costs (Continued)

Cause and Effect: As a result of these courses improperly including the optional contact hours in the total amount of contact hours of attendance claimed for apportionment, the District is not in accordance with CCR, Title 5, Sections 58006 and 58022.

Questioned Costs: FTEs were overstated by 1.13 due to the inclusion of optional contact hours when calculating the actual hours of attendance.

Recommendation: We recommend that the District revise all course outlines of records that refer to optional hours and ensure that instructors do not include these hours when tabulating the actual hours of attendance earned for apportionment funding.

District Response: Optional instructional hours were removed from the District's student information system, but unfortunately some courses were overlooked. An exception report will be used to confirm that all optional instructional hours have been excluded from future attendance accounting calculations. Revisions to the course outlines of record will be submitted to the District's Curriculum Advisory Committee for implementation.

**Santa Barbara Community College District
Schedule of Status of Prior Audit Findings
Year Ended June 30, 2012**

<u>Finding / Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented</u>
Finding 11.1: We recommended that the District continue to work with their Banner software consultant to implement software correction to ensure that similar errors in census date determination do not occur.	Implemented	
Finding 11.2: We recommended that the District include in the office course catalog, official class schedules and any addendums, the TBA hour requirements for those courses with TBA hours in order to be in compliance.	Partially Implemented	See Finding 12.2
Finding 11.3: We recommended that on an annual basis, the District review eligibility for all students continuing under the CARE program to ensure that ineligible students do not receive benefits.	Implemented	
Finding 11.4: We recommended that the District ensure that records listed under the provisions of CCR, Title 5, Section 59023 are retained in order to be in compliance.	Partially Implemented	See Finding 12.3